

KENTUCKY

TEACHERS' RETIREMENT SYSTEM

RETIRED MEMBER
EDITION



MAY/JUNE
2009

Upcoming KTRS **Board of Trustees Election**

The Teachers' Retirement System is governed by a nine member Board of Trustees. Two trustees are ex-officio members, the Chief State School Officer and the State Treasurer. The remaining seven trustees are elected by the retired and active membership. Elections are held in May of each year to fill either one or two positions on the Board. Positions are held for four-year terms and the elections are staggered. This May, the membership will elect an active member trustee and a retired member trustee.

The candidates for the active teacher position are Dr. Jay Morgan, the incumbent, from Murray, and Patty Evans, from Campbellsville. The candidates for the retired teacher position are Barbara G. Sterrett, the incumbent, from Lexington, and James Sproul from Barbourville.

In early May, each retired and active KTRS member will receive a ballot with information about the candidates. Retired members will receive a yellow ballot and active members will receive a blue ballot. Please select your candidate, tear along the perforation, and drop the ballot in the mail. Postage is prepaid. You may return your ballot any time during May, but no later than May 31, 2009. The Chief State School Officer is responsible for counting the ballots.

All members are urged to review the qualifications of each candidate and cast their ballot for the candidate that they feel has the best qualifications to be an effective member of the Board of Trustees. The results of the election will be announced in the next KTRS newsletter.



Market Downturn Creates Long-Term Opportunities

Volatility in financial markets is a natural by-product of a freely functioning market economy, compensated for by the economic returns generated by a free economy. The turmoil in the markets and our financial system over the past year, however, represents a once-in-a-lifetime episode. In general terms, the financial system's problems have been caused by excessive debt, a lack of risk control, and a failure of regulation. Markets and the human institutions that operate them are not perfect; this leads, once in great while, to dangerous excesses. The correction of those excesses is now having painful consequences for the economy.

Fortunately, the Kentucky Teachers' Retirement System's (System) sound investment practices have allowed us to weather even this "perfect storm" much better than the vast majority of institutional investors. Our returns for 2008, while unavoidably negative, were in the top 30% of large pension plans. As a result of the System's consistent approach which emphasizes intrinsic value and risk control, we avoided fundamentally unsound types of securities and investment practices which ultimately resulted in serious losses for many funds.

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Our investment perspective is long term and our focus is currently on the opportunities being created in this environment. Long before the current financial turmoil ensued, the System had begun a multi-year process of better diversifying its mix of investment classes in a measured, prudent fashion. The dislocations in the financial markets allow us to continue this process, entering new investments at cheaper valuations, improving the prospect for future returns.

Year in and year out the consistency of our fundamental, risk-controlled, approach to investing has ensured the long-term returns necessary to provide promised benefits to our members. Not even a once-in-a-lifetime financial storm can threaten this approach. On the contrary, we believe it will enhance returns for the future.

Medicare Prescription Drug Plan Request For Qualifications (RFQ) Update

KTRS' current self-funded Medicare Eligible Prescription Drug Plan pays prescription claims as the primary payer. The Medicare Modernization Act legislation opened a window of opportunity for insurance carriers or pharmaceutical benefits managers to offer insured or self-funded drug plans called Employer Group Waiver Prescription Drug Plans. These plans have been well received in the group market producing a competitive environment.

KTRS issued a Request For Qualifications (RFQ) for a broker/consultant for a Medicare Prescription Drug Plan, known as an Employer Group Waiver Plan under the Medicare Modernization Act. Aon Consulting was awarded this RFQ in March 2009.

This spring and summer, Aon Consulting will draft a further solicitation in accordance with the existing Medicare Eligible Prescription Drug Plan design; therefore, the existing plan design, out-of-pocket costs, and pharmacy access will not materially change. The solicitation will further explore this opportunity and determine if an annual savings

of \$5-\$15 million can be achieved with minimal benefit disruption to our membership. Should such a savings be recognized, there would be a significant reduction in the actuarial accrued unfunded liability for the KTRS Medical Insurance Fund.

If a contract is eventually awarded on or after January 01, 2010, this Employer Group Waiver Prescription Drug Plan will replace the current KTRS self-funded Medicare Eligible Prescription Drug Plan. The KTRS Medicare Advantage Private-Fee-for-Service plan, currently administered by Humana, will remain intact for the medical claims of the Medicare eligible retirees.

Notice of Changes in Income Tax Withholding on Benefit Payments

Beginning in April 2009, Kentucky Teachers' Retirement System (KTRS) will use new federal withholding tables that may reduce the amount of income tax withheld from your benefit payments. The new tables, prescribed by the Department of the Treasury, reflect the Making Work Pay credit and other changes resulting from the American Recovery and Reinvestment Act of 2009.

If you do not want to have your withholding reduced (because, for example, you have more than one source of income or you are married and your combined income places you in a higher tax bracket), you may want to file a new Form W-4P with KTRS. You may claim fewer withholding allowances on line 2 or request additional amounts to be withheld on line 3. You should address specific questions regarding your particular circumstances to your tax advisor. For additional help, get IRS Publication 919, *How Do I Adjust My Tax Withholding?* or visit the IRS website at www.irs.gov and use the "Withholding Calculator."

To obtain a **Form W-4P**, you may visit the KTRS website at www.ktrs.ky.gov. From here select "retired members" then select "forms" in the box to the right.

Retirees Age 65 & Over

Medicare Eligible Health Plan (MEHP) Reminders!

Before you enroll in a Medicare Part D plan: The KTRS self-funded Medicare Eligible Prescription Drug Plan, the primary payer of drug claims for all eligible retirees age 65 & over, is as good as the standard Medicare Part D prescription plan and is considered creditable coverage. Therefore, if you are enrolled in the KTRS Medicare Eligible Prescription Drug Plan, currently administered by Medco, please contact KTRS before enrolling in a Medicare Part D prescription plan. Unless you are on Medicaid in addition to Medicare or you are eligible for extra help with prescriptions through the Low Income Subsidy program at Social Security, it might not be in your best financial interest to terminate your KTRS coverage and enroll in a Medicare Part D plan.

When you go to the pharmacy: Show your Medco card to receive your KTRS prescription benefits, subject to an annual \$150 retail prescription deductible. For more information, contact Medco at 1-800-551-8060.

When you receive covered healthcare services: Remember, your plan has an annual \$150 deductible - which means you pay the first \$150 of "covered" medical costs out of your pocket.

If you want to cancel your KTRS Medicare Advantage plan: You must contact KTRS in writing to cancel your current plan. Do not contact Humana or Medicare to cancel your KTRS MEHP coverage.

If you get a call regarding the Health Risk Assessment: You'll get the call after your MEHP enrollment to determine if you need any clinical programs, such as diabetes care. If the caller can't reach you by phone, you'll get a call-back number. For more information, call Humana at 1-866-396-8810. TTY users should call 1-800-833-3301. Hours are 8 a.m. - 11 p.m., Eastern time, Monday - Friday.

Working Aged Survey

According to Medicare requirements, Humana Inc. must send out a Working Aged Survey to all members age 65 and over on a yearly basis. This initiative takes place from April through September of each year.

The purpose of the survey is to determine what insurance plan is primary for a member's medical claims, especially if the member is actively employed (with health coverage) in addition to being retired through KTRS. The survey consists of 8 questions. The demographic information at the top of the survey is pre-populated for the members. If a survey is not returned to Humana or if an incomplete survey is received, Humana will attempt to reach the member by phone.

Humana is required to send the information that is gathered from the survey to Medicare by September 15th. If Humana is unable to gather information on a member, the member is sent to Medicare as unresponsive.

Medicare then makes a determination on these members based on their information. When a member has more than one health insurance coverage, it is important that benefits be appropriately determined and ordered so that healthcare dollars are not duplicated for the same service. KTRS appreciates your responsiveness and cooperation regarding the Working Aged Survey.

Did you know you can access a pharmacist 24 hours a day?

**Medicare Eligible Health Plan
1-800-551-8060**

Retirees Age 65 & Over

Notice of Privacy Practices Reminder For Participants of the Medicare Eligible Health Plan (MEHP)

The Health Insurance Portability and Accountability Act (HIPAA) privacy regulations require that health plans, such as the MEHP, maintain the privacy of the participants' protected health information and provide participants with notice of our legal duties and privacy practices with respect to protected health information. The KTRS notice of privacy practices has been in effect since April 14, 2003. Existing participants as of that time were mailed this notice. Participants joining the MEHP after that date were supplied with a notice that was inside the MEHP Summary Plan Description. MEHP participants may request another copy of the KTRS notice of privacy practices at any time by submitting a written request to the KTRS Privacy Officer, 479 Versailles Road, Frankfort, KY 40601, or MEHP participants may view this notice on the KTRS website at ktrs.ky.gov.

2009 Regular Session of the General Assembly

There were no bills enacted during the 2009 Regular Session of the General Assembly that would have any direct impact on KTRS. Some legislation, often generically described as retirement system legislation, was enacted during this Session in regard to Kentucky Retirement Systems (KRS), but that legislation impacted KRS only. At this point, the General Assembly will not reconvene until January of 2010, unless a Special Session is called by the Governor in the interim.

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479 Versailles Road
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MAY/JUNE 2009

